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USAID FOR NANDY

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TAGS: [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [PARM](#) [EG](#)
SUBJECT: EGYPT: ESF DISCUSSION WITH MINISTER OF
INTERNATIONAL COOPERATION ABOULNAGA

Classified By: Ambassador Margaret Scobey for reason 1.4(d).

11. (C) Key points:

-- In a March 23 meeting, Minister of International cooperation Aboulnaga told the Ambassador that Egypt is "very pleased" with the approach taken by the new Administration but is concerned that any proposed ESF for FY 2010 should demonstrate USG commitment to compensate Egypt for the impact and repercussions of the USG's "unilateral" cut of over 50% from FY-2008 to FY-2009.

-- Aboulnaga noted that Egypt is pulling together offers of "new money" for Sinai development from the Japanese and EU, and said Egypt would welcome a U.S. contribution; the Ambassador reminded her that Egypt had declined to be included in the Gaza supplemental.

-- The minister urged the USG not present Egypt with an ESF level proposal "two days" the Administration submits the budget to Congress, calling this a "take it or leave it" approach similar to the last Administration.

12. (C) Next steps:

-- Based on this meeting, we recommend proposing an ESF level for FY-2010 ASAP, including our thoughts about the future of ESF, to allow Egypt a chance to respond before the Administration makes its FY-2010 budget request.

-- If it is possible to increase the level of ESF, even to \$275m rather than \$250m, it would help, as would an accompanying statement that indicates we are open to discussing funding levels past FY-2010, depending on U.S. budget realities.

13. (C) Comment: Aboulnaga is taking a hard line, essentially threatening to abandon the ESF program entirely if she's not satisfied with the amount of ESF on offer for FY-2010 and the future. We find it hard to believe that Egypt would scupper the newly warmed up relationship with us over \$100 million dollars, so there is likely some bluff in Aboulnaga's presentation. That said, we need to provide Egypt with concrete proposals soon.

14. (C) Comment continued: In our view, an ideal assistance package for Egypt would include the following elements:

-- \$250-275M in ESF for FY-2010;
-- A statement that we are open to discuss future levels dependent on U.S. budget realities, but without a pre-commitment to an increase;
-- \$50 million for the X-ray scanners (not ESF, but it is a significant uptick in appropriated funds for Egypt);
-- A commitment to create a mutually acceptable endowment using a portion of ESF;
-- An agreement to serious discussion on debt arrangement in future;
-- Identify funding for controversial D&G programs with funds other than the Egyptian ESF appropriation; and
-- A possible invitation to the April London G-20 Econ Summit for President Mubarak.

15. (C) On March 23, the Ambassador, accompanied by USAID Mission Director, met with Minister of International Cooperation Fayza Aboulnaga to continue efforts to manage Egyptian ESF expectations. This was of particular concern given the substance of Prime Minister Nazif's recent remarks to the Secretary in Sharm El-Sheikh, in which he said Egypt was looking to "restore the level of the ESF program" so that it reflects the value of bilateral relationship." Likewise, the Ambassador was interested in the GoE reaction to Acting A/S Feltman's discussion last week with Egypt's Ambassador to the U.S.

16. (C) The Ambassador made it clear to the minister that the USG had not/not made any decision about FY-2010 ESF funding and could not propose anything at the moment, but noted that we were looking to see if some additional funding could be found. She warned, however, that it would not/not be at the level of \$415 million. USAID Mission Director, recently returned from an extended TDY in Washington, gave a clear and sober assessment of the U.S. budgetary environment and urged that Egypt keep that in mind. The Ambassador stressed that we should not define the bilateral relationship by a certain amount of money but needed to look to the overall relationship.

17. (C) Aboulnaga responded that Egypt was so far extremely pleased -- from President Mubarak on down -- with the tone of the new Administration and appreciated the Secretary's commitment to Prime Minister Nazif that she wanted to increase the size and flexibility of Egypt's ESF, as well as eliminating conditionality. (Note: This apparently referred to an aside to the PM not heard by the U.S. side as far as we know. End note.)

18. (C) The minister, however, was deeply concerned that the concept mentioned by AA/S Feltman to Shoukry was not what Egypt saw as the "strict minimum" needed to demonstrate USG commitment to compensate Egypt for the impact and repercussions of the "unilateral" USG cut in ESF of over 50% from FY-2008 to FY-2009. She said the GOE understood that FY-2009 could not be changed and wants to go forward with programming it if/when Egypt receives a "clear understanding on years to come" and on how the U.S. could "make up for lost allocation in 2009 and beyond." She listed a number of ways the U.S. might accomplish this: via a supplemental; via an increase of next year's ESF; and via increases in the years beyond. She also pressed hard on finding a way to use Egyptian debt repayments (now at over \$350 million a year) to finance projects or other goals in Egypt.

19. (C) The minister expressed Egyptian understanding for the huge financial crisis in the U.S. but said Egypt was itself facing economic strains due to the global recession. The GoE anticipated 150,000 families returning to Egypt in the coming year as they lost their jobs in the Gulf and elsewhere. Suez Canal revenue is down, as is Egypt's rate of GDP growth, which this year might drop to 3% as compared to 7% last year. (Note: Egypt needs to sustain an annual GDP growth rate of about 8% in order to create enough jobs for new graduates entering the workplace. End note.) Aboulnaga suggested that the U.S. had a "moral obligation" to help Egypt, and warned that gains made on Egypt's economic reform program could unravel. She finally revealed that for Egypt a "strict minimum" of ESF came to about \$350 million dollars a year -- at that level she could "defend" the U.S. program to critics in Parliament (Note: This amount coincides with annual GOE debt repayment to the U.S. End note.)

110. (C) In short, Aboulnaga pulled out every stop to persuade, shame, and guilt us into believing the United States "owed" Egypt more money in ESF.

111. (C) The Ambassador counseled strongly against identifying an arbitrary monetary figure that would govern Egyptian reactions to the future of ESF. The Administration, she

said, was reviewing all ideas that Egypt had proposed in the past and wanted a real dialogue, but cautioned that the U.S. economic system was under enormous pressure, and we had to be realistic. The Ambassador underlined what mattered was finding common purpose in going forward with a program of which we could both be proud. While we have not heard much discussion of levels beyond FY-2010, she said she believed the U.S. would continue to consult with Egypt over future levels. The USAID Mission Director pointed out that she perceived a disinclination in the new Administration to go beyond year-on-year thinking at this point, given huge U.S. budget deficits. Toward the end of the conversation Abounaga stopped talking about "strict minimums" and said what was important was an understanding on the years to come.

¶12. (C) The Ambassador also drew the minister out on Egyptian thinking on Sinai development. Abounaga said GOE is putting its program priorities together and that the Europeans and Japanese had all offered to help with "new money." They were looking at infrastructure and job creation programs such as hospital and school construction, roads, job training, etc. She said they would welcome U.S. participation as long as all the aid went via the GOE. (Note: USAID currently funds a number of projects, particularly in microfinance, and works directly with NGOs in the Sinai. End note.) The Ambassador reminded Abounaga that the USG had considered possible new money for the Sinai via a Gaza supplemental package but that Foreign Minister Aboul Gheit had said "no thanks," that such a channel would "embarrass" the GOE.

¶13. (C) The Ambassador told Abounaga we hoped to be able to put some more concrete ideas forward within the next 2-3 weeks. Abounaga insisted that we not present GOE with an ESF level proposal "two days" before OMB intended to submit the budget to the Hill -- that would be a "take it or leave it" approach similar to the last Administration.

SCOBAY